

DANVILLE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS

JUNE 30, 2011

DANVILLE COMMUNITY SCHOOL DISTRICT

Table of Contents

June 30, 2011

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-13
Basic Financial Statements	<u>Exhibit</u>
Government-wide Financial Statements	
Statement of Net Assets	A 15-16
Statement of Activities	B 17-18
Governmental Fund Financial Statements	
Balance Sheet	C 19
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 20
Statement of Revenues, Expenditures and Changes in Fund Balances	E 21-22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 23
Proprietary Fund Financial Statements	
Statement of Net Assets	G 24
Statement of Revenues, Expenses and Changes in Net Assets	H 25
Statement of Cash Flows	I 26
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	J 27
Statement of Changes in Fiduciary Net Assets	K 28
Notes to Financial Statements	29-45
Required Supplementary Information	
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Funds	47
Notes to Required Supplementary Information - Budgetary Reporting	48
Schedule of Funding Progress for the Retiree Health Plan	49

DANVILLE COMMUNITY SCHOOL DISTRICT

Table of Contents

June 30, 2011

Other Supplementary Information	<u>Schedule</u>	<u>Page</u>
Nonmajor Governmental Funds		
Combining Balance Sheet	1	51
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	52
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	53-54
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	55
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		56-57
Schedule of Findings		58-61
Audit Staff		62

DANVILLE COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Sandra Dockendorff	Board President	2013
Matt Parrott	Vice President	2013
Allan Luers	Board Member	2011
Brian Bauer	Board Member	2011
Scott Becker	Board Member	2011

School Officials

Gary Delacy	Superintendent	2011
Nancy House	Board Secretary/Treasurer	Indefinite
Lane & Waterman LLP	Attorney	Indefinite

KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive, Suite 3
Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report

To the Board of Education
Danville Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Danville Community School District, Danville, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

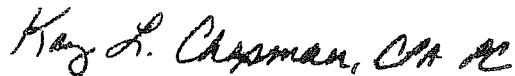
I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Danville Community School District as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated February 28, 2012 on my consideration of Danville Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 13 and 47 through 49 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Danville Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the eight years in the period ended June 30, 2011, appearing in Schedule 4, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

A handwritten signature in black ink that reads "Kay L. Chapman, CPA PC". The signature is written in a cursive, flowing style.

Kay L. Chapman, CPA PC
February 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Danville Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,181,829 in fiscal 2010 to \$5,546,591 in fiscal 2011, and General Fund expenditures increased from \$4,933,325 in fiscal 2010 to \$5,129,971 in fiscal 2011. The District's General Fund balance increased from \$(79,917) in fiscal 2010 to \$336,903 in fiscal 2011, a 522% increase.
- The increase in General Fund revenues was attributable the District receiving increased tuition and state funding. The increase in expenditures was due primarily the negotiated salary and benefits. The General Fund balance increase was the result of the increase in revenues being more than sufficient to cover the increase in expenditures for fiscal 2011.

The District's solvency ratio (unassigned fund balance/general fund revenues) increased from -5.58% for fiscal 2010 to 1.98% for fiscal 2011. The State School Budget Review Committee recommends a solvency ratio between 5%-10%.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Danville Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Danville Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Danville Community School District acts solely as a custodian for the benefit of those outside of District government.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1

Danville Community School District Annual Financial Report

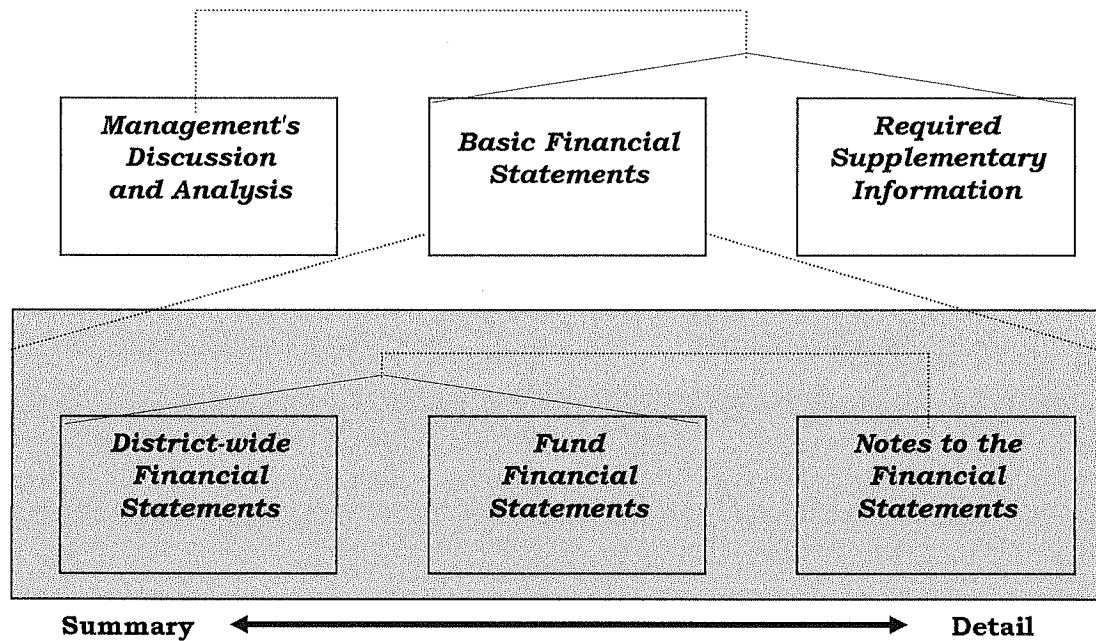


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and preschool operation	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are

one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program and preschool program are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Funds.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Preschool Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary fund:* The District is the trustee, or fiduciary, for assets that belong to others. This fund consists of a Private-Purpose Trust Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary fund are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Total assets	\$3,075,771	\$2,590,008	\$115,797	\$113,246	\$3,191,568	\$2,703,254	18.06%
	<u>5,980,307</u>	<u>6,074,400</u>	<u>210,353</u>	<u>232,539</u>	<u>6,190,660</u>	<u>6,306,939</u>	-1.84%
	<u>9,056,078</u>	<u>8,664,408</u>	<u>326,150</u>	<u>345,785</u>	<u>9,382,228</u>	<u>9,010,193</u>	4.13%
Total liabilities	2,375,205	2,807,281	-	-	2,375,205	2,807,281	-15.39%
	<u>2,199,577</u>	<u>2,233,077</u>	<u>6,038</u>	<u>12,491</u>	<u>2,205,615</u>	<u>2,245,568</u>	-1.78%
	<u>4,574,782</u>	<u>5,040,358</u>	<u>6,038</u>	<u>12,491</u>	<u>4,580,820</u>	<u>5,052,849</u>	-9.34%
Invested in capital assets, net of related debt	3,869,307	3,457,331	210,353	232,539	4,079,660	3,689,870	10.56%
Restricted	487,434	539,876	-	-	487,434	539,876	-9.71%
Unrestricted	<u>124,555</u>	<u>(373,157)</u>	<u>109,759</u>	<u>100,755</u>	<u>234,314</u>	<u>(272,402)</u>	186.02%
	<u>\$4,481,296</u>	<u>\$3,624,050</u>	<u>\$320,112</u>	<u>\$333,294</u>	<u>\$4,801,408</u>	<u>\$3,957,344</u>	21.33%

The District's combined net assets increased by approximately 21%, or \$844,064 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$52,442, or approximately 10% from the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$506,716, or approximately 186%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4
Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Revenues							
Program revenues							
Charges for service and sales	\$ 1,246,059	\$ 1,177,954	\$ 237,368	\$ 243,072	\$ 1,483,427	\$ 1,421,026	4.39%
Operating grants	864,218	937,806	153,518	192,703	1,017,736	1,130,509	-9.98%
General revenues							
Property tax	1,913,566	1,925,619	-	-	1,913,566	1,925,619	-0.63%
Statewide sales, services and use tax	387,741	397,905	-	-	387,741	397,905	-2.55%
Unrestricted state grants	2,026,553	1,649,882	-	-	2,026,553	1,649,882	22.83%
Contributions and donations	3,741	31,751	-	-	3,741	31,751	-88.22%
Unrestricted investment earnings	15,699	19,043	2,032	787	17,731	19,830	-10.58%
Other	34,106	371	-	-	34,106	371	9092.99%
Special item - gain on sale of assets	<u>90,162</u>	<u>2,068</u>	<u>-</u>	<u>-</u>	<u>90,162</u>	<u>2,068</u>	4259.86%
Total revenues, special item & transfers	<u>6,581,845</u>	<u>6,142,399</u>	<u>392,918</u>	<u>436,562</u>	<u>6,974,763</u>	<u>6,578,961</u>	6.02%
Program expenses							
Governmental activities							
Instruction	3,747,917	3,800,200	-	-	3,747,917	3,800,200	-1.38%
Support services	1,525,837	1,505,253	-	-	1,525,837	1,505,253	1.37%
Non-instructional programs	2,306	2,769	406,100	395,995	408,406	398,764	2.42%
Other expenses	<u>448,539</u>	<u>526,440</u>	<u>-</u>	<u>-</u>	<u>448,539</u>	<u>526,440</u>	-14.80%
Total expenses	<u>5,724,599</u>	<u>5,834,662</u>	<u>406,100</u>	<u>395,995</u>	<u>6,130,699</u>	<u>6,230,657</u>	-1.60%
Change in net assets	857,246	307,737	(13,182)	40,567	844,064	348,304	-142.34%
Net assets, beginning of year	<u>3,624,050</u>	<u>3,316,313</u>	<u>333,294</u>	<u>292,727</u>	<u>3,957,344</u>	<u>3,609,040</u>	9.65%
Net assets, end of year	<u>\$ 4,481,296</u>	<u>\$ 3,624,050</u>	<u>\$ 320,112</u>	<u>\$ 333,294</u>	<u>\$ 4,801,408</u>	<u>\$ 3,957,344</u>	21.33%

In fiscal 2011, property tax and unrestricted state grants account for 60% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for almost 100% of the revenue from business type activities.

The District's total revenues were \$6,974,763 of which \$6,581,845 was for governmental activities and \$392,918 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6% increase in revenues and a 2% decrease in expenses

Governmental Activities

Revenues for governmental activities were \$6,581,845 and expenses were \$5,724,599 for the year ended June 30, 2011. The increase in revenues was attributable the District receiving increased local and state sources. The decrease in expenditures was due primarily to a decrease in the Instruction and Other Expenses functions.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
			Change			Change
	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
Instruction	\$ 3,747,917	\$ 3,800,200	-1.4%	\$ 1,852,590	\$ 1,882,659	-1.6%
Support services	1,525,837	1,505,253	1.4%	1,503,212	1,494,904	0.6%
Non-instructional programs	2,306	2,769	100.0%	2,306	2,769	-16.7%
Other expenses	<u>448,539</u>	<u>526,440</u>	-14.8%	<u>256,214</u>	<u>338,570</u>	-24.3%
Total expenses	<u>\$ 5,724,599</u>	<u>\$ 5,834,662</u>	-1.9%	<u>\$ 3,614,322</u>	<u>\$ 3,718,902</u>	-2.8%

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$1,246,059.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$864,218.
- The net cost of governmental activities was financed with \$2,301,307 in property and other taxes and \$2,026,553 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2011 were \$392,918 representing a 10% decrease from the prior year and expenses were \$406,100 a 3% increase over the prior year. The District's business type activities consist of the School Nutrition Fund and the Preschool/Daycare Fund, which was started in fiscal 2006. The Preschool/Daycare continues to grow, accounting for much of the increase in expenditures. Revenues of these activities were comprised of charges for service, federal and state reimbursements, empowerment grant and investment income.

During the year ended June 30, 2011, the District continued to hold steady the labor hours in the Nutrition program.

INDIVIDUAL FUND ANALYSIS

As previously noted, Danville Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$602,078, well above last year's ending fund balances of \$275,999.

Governmental Fund Highlights

- The District's improving General Fund financial position is the result of revenues being greater than expenditures.
- The General Fund balance increased from \$(79,917) to \$336,903, due in part to increased local and state sources compared to fiscal year 2010.

Proprietary Fund Highlights

Enterprise Fund net assets decreased from \$333,294 at June 30, 2010 to \$320,112 at June 30, 2011, representing a decrease of approximately 4%.

For fiscal 2011, the program revenues were greater than the expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, Danville Community School District amended its annual budget one time by \$200,000 to reflect additional revenue and expenditures in Total Support Services and paying off debt and building and grounds improvements in Total Other Expenditures.

The District's revenues were \$253,755 less than budgeted revenues, a variance of 4%. This is due primarily to a reduction in state resources that caused the total revenues to be less than originally anticipated.

Total expenditures were \$439,943 less than budgeted, due primarily to the District's line item spending of less than budget authority.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$6,190,660, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents an increase of less than 1% over last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$339,313.

The original cost of the District's capital assets was \$10,520,598. Governmental funds account for \$10,206,562 with the remainder of \$314,036 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category. The District's furniture and equipment category totaled \$617,101 at June 30, 2011, compared to \$552,071 reported at June 30, 2010. This increase resulted from the annual depreciation expense reported during 2011.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change 2010- 2011
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	
Land	\$ 152,408	\$ 152,408	\$ -	\$ -	\$ 152,408	\$ 152,408	0.00%
Buildings and improvements	5,353,379	5,406,236	-	-	5,353,379	5,406,236	-0.98%
Improvements other than buildings	67,771	69,155	-	-	67,771	69,155	-2.00%
Furniture and equipment	<u>406,749</u>	<u>319,532</u>	<u>210,353</u>	<u>232,539</u>	<u>617,102</u>	<u>552,071</u>	11.78%
Totals	<u>\$ 5,980,307</u>	<u>\$ 5,947,331</u>	<u>\$210,353</u>	<u>\$ 232,539</u>	<u>\$ 6,190,660</u>	<u>\$6,179,870</u>	0.17%

Long-Term Debt

At June 30, 2011, the District had \$2,375,205 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 15% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The District continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$5 million.

Figure A-7
Outstanding Long-term Obligations

	Total District		Total Change
	<u>2011</u>	<u>2010</u>	<u>2010-2011</u>
General obligation bonds	\$ 930,000	\$ 1,095,000	-15.07%
Revenue bonds	1,181,000	1,395,000	-15.34%
Termination benefits	248,118	309,281	-19.78%
Net OPEB liability	<u>16,087</u>	<u>8,000</u>	101.09%
Total	<u>\$2,375,205</u>	<u>\$2,807,281</u>	-15.39%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District will negotiate a new agreement with the Danville Education Association during fiscal 2012. Settlements in excess of “new money” or allowable growth in state funding will have an adverse effect on the District’s General Fund budget and related fund balance.
- The 2011/2012 budget includes a cash reserve levy in the amount of \$337,595.
- Taxable valuation has increased and enrollment is stable.
- Continued budget concerns at the state level will affect future projections.
- The District has ongoing needs for transportation vehicle replacements.
- The District is applying for a FEMA Safe Room Grant to build a preschool/daycare addition.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District’s citizens, taxpayers, customers, investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Nancy House, District Secretary/Treasurer and Business Manager, Danville Community School District, 419 South Main Street, Danville, Iowa, 52623.

Basic Financial Statements

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2011

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 776,306	\$ 109,607	\$ 885,913
Receivables			
Property tax			
Delinquent	13,367	-	13,367
Succeeding year	1,805,523	-	1,805,523
Accounts receivable	16,873	1,278	18,151
Income surtaxes	191,248	-	191,248
Due from other governments	272,454	-	272,454
Inventories	-	4,912	4,912
Non-depreciable capital assets	152,408	-	152,408
Capital assets, net of accumulated depreciation	5,827,899	210,353	6,038,252
Total assets	<u>9,056,078</u>	<u>326,150</u>	<u>9,382,228</u>
Liabilities			
Accounts payable	75,367	279	75,646
Salaries and benefits payable	311,404	5,759	317,163
Accrued interest payable	7,283	-	7,283
Deferred revenue			
Succeeding year property tax	1,805,523	-	1,805,523
Long-term liabilities			
Portion due within one year			
General obligation bonds payable	175,000	-	175,000
Revenue bonds payable	130,000	-	130,000
Termination benefits payable	46,236	-	46,236
Portion due after one year			
General obligation bonds payable	755,000	-	755,000
Revenue bonds payable	1,051,000	-	1,051,000
Termination benefits payable	201,882	-	201,882
Net OPEB liability	16,087	-	16,087
Total liabilities	<u>4,574,782</u>	<u>6,038</u>	<u>4,580,820</u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2011

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$3,869,307	\$ 210,353	\$4,079,660
Restricted for			
Categorical funding	230,634	-	230,634
Student activities	105,350	-	105,350
School infrastructure	134,706	-	134,706
Physical plant and equipment	12,679	-	12,679
Debt service	4,065	-	4,065
Unrestricted	<u>124,555</u>	<u>109,759</u>	<u>234,314</u>
Total net assets	<u><u>\$4,481,296</u></u>	<u><u>\$ 320,112</u></u>	<u><u>\$4,801,408</u></u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2011

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Business Type Activities	Activities
<u>Functions/Programs</u>						
Governmental activities						
Instruction						
Regular instruction	\$ 2,373,407	\$ 1,103,689	\$ 594,125	\$ -	\$ (675,593)	\$ (675,593)
Special instruction	486,630	121,604	66,365	-	(298,661)	(298,661)
Other instruction	887,880	-	9,544	-	(878,336)	(878,336)
	<u>3,747,917</u>	<u>1,225,293</u>	<u>670,034</u>	<u>-</u>	<u>(1,852,590)</u>	<u>(1,852,590)</u>
Support services						
Student	76,670	-	-	-	(76,670)	(76,670)
Instructional staff	144,262	20,766	-	-	(123,496)	(123,496)
Administration	584,419	-	1,500	-	(582,919)	(582,919)
Operation and maintenance of plant	401,777	-	-	-	(401,777)	(401,777)
Transportation	318,709	-	359	-	(318,350)	(318,350)
	<u>1,525,837</u>	<u>20,766</u>	<u>1,859</u>	<u>-</u>	<u>(1,503,212)</u>	<u>(1,503,212)</u>
	<u>2,306</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,306)</u>	<u>(2,306)</u>
Non-instructional programs						
Other expenses						
Facilities acquisition	12,099	-	-	-	(12,099)	(12,099)
Long-term debt interest	92,386	-	-	-	(92,386)	(92,386)
AEA flowthrough	192,325	-	192,325	-	-	-
Depreciation (unallocated) *	151,729	-	-	-	(151,729)	(151,729)
	<u>448,539</u>	<u>-</u>	<u>192,325</u>	<u>-</u>	<u>(256,214)</u>	<u>(256,214)</u>
Total governmental activities	<u>5,724,599</u>	<u>1,246,059</u>	<u>864,218</u>	<u>-</u>	<u>(3,614,322)</u>	<u>(3,614,322)</u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2011

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Operating Grants, Contributions and Restricted Interest			Governmental Business Type Activities Activities Total		
	Expenses	Charges for Services	Capital Grants, Contributions and Restricted Interest	Activities	Activities	Total
Functions/Programs (continued)						
Business type activities						
Non-instructional programs						
Food service operations	\$ 350,156	\$ 198,541	\$ 125,818	\$ -	\$ (25,797)	\$ (25,797)
Preschool program	55,944	38,827	27,700	-	10,583	10,583
Total business type activities	406,100	237,368	153,518	-	(15,214)	(15,214)
Total	\$ 6,130,699	\$ 1,483,427	\$ 1,017,736	(3,614,322)	(15,214)	(3,629,536)
General Revenues						
Property tax levied for						
General purposes				1,771,652	-	1,771,652
Debt service				109,123	-	109,123
Capital outlay				32,791	-	32,791
Statewide sales, services and use tax				387,741	-	387,741
Unrestricted state grants				2,026,553	-	2,026,553
Contributions and donations				3,741	-	3,741
Unrestricted investment earnings				15,699	2,032	17,731
Other				34,106	-	34,106
Special item - gain on sale of capital assets				90,162	-	90,162
Total general revenues and special item				4,471,568	2,032	4,473,600
Change in net assets				857,246	(13,182)	844,064
Net assets, beginning of year				3,624,050	333,294	3,957,344
Net assets, end of year				\$ 4,481,296	\$ 320,112	\$ 4,801,408

* This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2011

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 565,912	\$ 210,394	\$ 776,306
Receivables			
Property tax			
Delinquent	11,397	1,970	13,367
Succeeding year	1,541,556	263,967	1,805,523
Accounts receivable	16,716	157	16,873
Income surtax	191,248	-	191,248
Due from other governments	211,298	61,156	272,454
Total assets	<u>\$2,538,127</u>	<u>\$ 537,644</u>	<u>\$3,075,771</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 66,865	\$ 8,502	\$ 75,367
Salaries and benefits payable	311,404	-	311,404
Deferred revenue			
Succeeding year property tax	1,541,556	263,967	1,805,523
Income surtax	191,248	-	191,248
Other	90,151	-	90,151
Total liabilities	<u>2,201,224</u>	<u>272,469</u>	<u>2,473,693</u>
Fund balances			
Restricted for			
Student activities	-	105,350	105,350
Management levy purposes	-	1,092	1,092
School infrastructure	-	134,706	134,706
Physical plant and equipment levy	-	12,679	12,679
Debt service	-	11,348	11,348
Categorical funding	230,634	-	230,634
Unrestricted	106,269	-	106,269
Total fund balances	<u>336,903</u>	<u>265,175</u>	<u>602,078</u>
Total liabilities and fund balances	<u>\$2,538,127</u>	<u>\$ 537,644</u>	<u>\$3,075,771</u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2011

Exhibit D

Total fund balances of governmental funds	\$ 602,078
--	-------------------

**Amounts reported for governmental activities in the Statement of Net Assets
are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	5,980,307
---	-----------

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	281,399
--	---------

Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(7,283)
--	---------

Long-term liabilities, including bonds and notes payable, termination benefits and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,375,205)</u>
---	--------------------

Net assets of governmental activities	<u>\$4,481,296</u>
--	---------------------------

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

Exhibit E

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Revenues			
Local sources			
Local tax	\$1,659,508	\$ 639,546	\$2,299,054
Tuition	966,172	-	966,172
Other	89,192	244,242	333,434
State sources	2,639,034	216	2,639,250
Federal sources	192,685	-	192,685
Total revenues	<u>5,546,591</u>	<u>884,004</u>	<u>6,430,595</u>
Expenditures			
Current			
Instruction			
Regular	2,397,556	43,175	2,440,731
Special	482,505	657	483,162
Other	649,798	218,857	868,655
	<u>3,529,859</u>	<u>262,689</u>	<u>3,792,548</u>
Support services			
Student	75,391	197	75,588
Instructional staff	143,759	329	144,088
Administration	573,839	27,069	600,908
Operation and maintenance of plant	368,331	28,764	397,095
Transportation	246,467	84,171	330,638
	<u>1,407,787</u>	<u>140,530</u>	<u>1,548,317</u>
Non-instructional programs	<u>-</u>	<u>2,306</u>	<u>2,306</u>
Other expenditures			
Facilities acquisition	-	182,769	182,769
Long-term debt			
Principal	-	379,000	379,000
Interest and fiscal charges	-	97,413	97,413
AEA flowthrough	192,325	-	192,325
	<u>192,325</u>	<u>659,182</u>	<u>851,507</u>
Total expenditures	<u>5,129,971</u>	<u>1,064,707</u>	<u>6,194,678</u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

Exhibit E

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 416,620</u>	<u>\$ (180,703)</u>	<u>\$ 235,917</u>
Other financing sources (uses)			
Sale of equipment and materials	200	89,962	90,162
Interfund operating transfers in	-	367,379	367,379
Interfund operating transfers (out)	<u>-</u>	<u>(367,379)</u>	<u>(367,379)</u>
Total other financing sources (uses)	<u>200</u>	<u>89,962</u>	<u>90,162</u>
Net change in fund balances	416,820	(90,741)	326,079
Fund balance, beginning of year, as restated	<u>(79,917)</u>	<u>355,916</u>	<u>275,999</u>
Fund balance, end of year	<u><u>\$ 336,903</u></u>	<u><u>\$ 265,175</u></u>	<u><u>\$ 602,078</u></u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2011

Exhibit F

Net change in fund balances - total governmental funds \$ 326,079

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:

Expenditures for capital assets	\$ 346,119	
Depreciation expense	<u>(313,143)</u>	32,976

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	61,088
--	--------

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	379,000
---	---------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Early retirement	61,163	
Other postemployment benefits	<u>(8,087)</u>	53,076

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	<u>5,027</u>
--	--------------

Change in net assets of governmental activities	<u><u>\$ 857,246</u></u>
--	--------------------------

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2011

Exhibit G

	<u>School Nutrition</u>	<u>Nonmajor Preschool</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 76,279	\$ 33,328	\$109,607
Accounts receivable	-	1,278	1,278
Inventories	4,912	-	4,912
Capital assets, net of accumulated depreciation	<u>210,353</u>	<u>-</u>	<u>210,353</u>
Total assets	<u>291,544</u>	<u>34,606</u>	<u>326,150</u>
Liabilities			
Accounts payable	-	279	279
Salaries and benefits payable	<u>3,911</u>	<u>1,848</u>	<u>5,759</u>
Total liabilities	<u>3,911</u>	<u>2,127</u>	<u>6,038</u>
Net Assets			
Invested in capital assets	210,353	-	210,353
Unrestricted	<u>77,280</u>	<u>32,479</u>	<u>109,759</u>
Total net assets	<u><u>\$287,633</u></u>	<u><u>\$ 32,479</u></u>	<u><u>\$320,112</u></u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

Exhibit H

	<u>School</u> <u>Nutrition</u>	<u>Nonmajor</u> <u>Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	\$198,541	\$ 38,827	\$237,368
Operating expenses			
Instruction, regular			
Salaries	-	14,062	14,062
Benefits	-	2,035	2,035
Supplies	-	4,640	4,640
	<u>-</u>	<u>20,737</u>	<u>20,737</u>
Non-instructional programs			
Food service operations			
Salaries	100,435	-	100,435
Benefits	29,335	-	29,335
Purchased services	4,311	-	4,311
Supplies	188,818	-	188,818
Miscellaneous	1,087	-	1,087
Depreciation	26,170	-	26,170
	<u>350,156</u>	<u>-</u>	<u>350,156</u>
Preschool operations			
Salaries	-	30,202	30,202
Benefits	-	5,005	5,005
	<u>-</u>	<u>35,207</u>	<u>35,207</u>
Total operating expenses	350,156	55,944	406,100
Operating (loss)	<u>(151,615)</u>	<u>(17,117)</u>	<u>(168,732)</u>
Non-operating revenues			
Interest income	2,032	-	2,032
State sources	2,670	27,700	30,370
Federal sources	123,148	-	123,148
Total non-operating revenues	<u>127,850</u>	<u>27,700</u>	<u>155,550</u>
Net income (loss)	(23,765)	10,583	(13,182)
Net assets, beginning of year	311,398	21,896	333,294
Net assets, end of year	<u>\$287,633</u>	<u>\$ 32,479</u>	<u>\$320,112</u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

Exhibit I

	<u>School Nutrition</u>	<u>Nonmajor Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 198,541	\$ 37,742	\$ 236,283
Cash payments to employees for services	(127,285)	(59,376)	(186,661)
Cash payments to suppliers for goods and services	(174,255)	(5,506)	(179,761)
Net cash used in operating activities	<u>(102,999)</u>	<u>(27,140)</u>	<u>(130,139)</u>
Cash flows from non-capital financing activities			
State grants received	2,670	27,700	30,370
Federal grants received	107,832	-	107,832
Net cash provided by non-capital financing activities	<u>110,502</u>	<u>27,700</u>	<u>138,202</u>
Cash flows from capital and related financing activities	<u>(3,983)</u>	<u>-</u>	<u>(3,983)</u>
Cash flows from investing activities			
Interest on investments	2,032	-	2,032
Net increase in cash and cash equivalents	5,552	560	6,112
Cash and cash equivalents, beginning of year	70,727	32,768	103,495
Cash and cash equivalents, end of year	<u>\$ 76,279</u>	<u>\$ 33,328</u>	<u>\$ 109,607</u>

**Reconciliation of operating loss to net cash
used in operating activities**

Operating loss	\$(151,615)	\$ (17,117)	\$(168,732)
Adjustments to reconcile operating loss to net cash used in operating activities			
Depreciation	26,170	-	26,170
Commodities used	15,316	-	15,316
(Increase) in accounts receivable	-	(1,085)	(1,085)
Decrease in inventory	4,646	-	4,646
(Decrease) in accounts payable	-	(866)	(866)
Increase (decrease) in accrued salaries and benefits	2,484	(8,072)	(5,588)
Net cash used in operating activities	<u>\$(102,999)</u>	<u>\$ (27,140)</u>	<u>\$(130,139)</u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2011 the District received \$15,316 of federal commodities.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2011

Exhibit J

	Private Purpose Trust <u>Scholarships</u>
Assets	
Cash and pooled investments	\$ 10,320
Liabilities	<u>-</u>
Net assets	
Reserved for scholarships	<u><u>\$ 10,320</u></u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2011

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Interest	\$ 136
Deductions	<u>-</u>
Change in net assets	136
Net assets, beginning of year	<u>10,184</u>
Net assets, end of year	<u><u>\$10,320</u></u>

See notes to financial statements.

DANVILLE COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies

The Danville Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Danville, Iowa, and the agricultural territory in Des Moines and Henry Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Danville Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The Danville Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The District reports one major proprietary fund, the School Nutrition Fund. This fund is used to account for the food service operations of the District. The District also reports a nonmajor enterprise fund, the Preschool Fund which accounts for the operation of the District's preschool program.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund consists of the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and termination benefits are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

The proprietary funds of the District apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The

principal operating revenues of the District's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2010.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,500
Buildings	\$ 1,000
Improvements other than buildings	\$ 2,500
Intangibles	\$25,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 1,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings & Improvements	50 years
Improvements other than buildings	20 years
Intangibles	5-10 years
Furniture and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenses for services performed by hourly employees prior to June 30, 2011 and payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Termination Benefits - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2011. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent federal grant proceeds as well as property tax receivables and income surtaxes not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balance - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the District first applies restricted resources.

Net assets restricted through enabling legislation include \$12,679 for physical plant and equipment, \$4,065 for debt service, \$105,350 for student activities and \$134,706 for school infrastructure.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

F. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$433,870 pursuant to Rule 2a-7 under the Investment Company Act of 1940. ISJIT is registered with and regulated by the Securities and Exchange Commission.

Credit risk. The investment in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Non-major governmental	Non-major governmental	
Statewide Sales, Services and Use Tax	Debt Service	\$ 277,661
Physical Plant and Equipment Levy	Debt Service	89,718
Total		<u>\$ 367,379</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The Statewide Sales, Services and Use Tax Fund and the Physical Plant and Equipment Levy Fund transferred money to the Debt Service Fund to make principal and interest payments on long-term debt.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 152,408	\$ -	\$ -	\$ 152,408
Capital assets being depreciated:				
Buildings and improvements	7,528,185	50,411	-	7,578,596
Improvements other than buildings	319,399	3,200	-	322,599
Furniture and equipment	<u>1,987,520</u>	<u>165,439</u>	<u>-</u>	<u>2,152,959</u>
Total capital assets being depreciated	<u>9,835,104</u>	<u>219,050</u>	<u>-</u>	<u>10,054,154</u>
Less accumulated depreciation for:				
Buildings and improvements	2,077,826	147,391	-	2,225,217
Improvements other than buildings	250,490	4,338	-	254,828
Furniture and equipment	<u>1,584,796</u>	<u>161,414</u>	<u>-</u>	<u>1,746,210</u>
Total accumulated depreciation	<u>3,913,112</u>	<u>313,143</u>	<u>-</u>	<u>4,226,255</u>
Total capital assets being depreciated, net	<u>5,921,992</u>	<u>(94,093)</u>	<u>-</u>	<u>5,827,899</u>
Governmental activities capital assets, net	<u>\$ 6,074,400</u>	<u>\$ (94,093)</u>	<u>\$ -</u>	<u>\$ 5,980,307</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 310,052	\$ 3,984	\$ -	\$ 314,036
Less accumulated depreciation	<u>77,513</u>	<u>26,170</u>	<u>-</u>	<u>103,683</u>
Business type activities capital assets, net	<u>\$ 232,539</u>	<u>\$ (22,186)</u>	<u>\$ -</u>	<u>\$ 210,353</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 60,900
Special	2,691
Other	17,829
Support services	
Student support	927
Administration	7,377
Operation and maintenance of plant	49,008
Transportation	<u>22,682</u>
	161,414
Unallocated depreciation	<u>151,729</u>
Total governmental activities depreciation expense	<u>\$313,143</u>

Business type activities

Food services	<u>\$ 26,170</u>
---------------	------------------

Note 5. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Governmental activities					
General obligation bonds	\$ 1,095,000	\$ -	\$ (165,000)	\$ 930,000	\$ 175,000
Revenue bonds	1,395,000	-	(214,000)	1,181,000	130,000
Termination benefits	309,281	25,577	(86,740)	248,118	46,236
Net OPEB liability	<u>8,000</u>	<u>8,087</u>	<u>-</u>	<u>16,087</u>	<u>-</u>
Totals	<u>\$ 2,807,281</u>	<u>\$ 33,664</u>	<u>\$ (465,740)</u>	<u>\$ 2,375,205</u>	<u>\$ 351,236</u>

Interest costs incurred and charged to expense on all long-term debt was \$92,386 for the year ended June 30, 2011.

Termination Benefits

The District offers a voluntary early retirement plan to its certified employees, who meet certain eligibility guidelines. Eligible employees must be at least fifty-five years of age and have completed fifteen years of consecutive service to the District. Employees must have completed an application, which was required to be approved by the Board of Education. Early retirement benefits are paid in a lump sum payment equal to 15% of the last year's salary. The District also pays 95% of the retiree's medical and dental insurance premium until the retiree reaches age

sixty-five. Early retirement benefits paid during the year ended June 30, 2011 totaled \$86,740 and the District had a total liability of \$248,118 payable to seven individuals at June 30, 2011.

Revenue Bonds

In June 2007 the District issued revenue anticipation bonds in the amount of \$1,800,000 to be used for remodeling and improvements to the kitchen. In August 2007 the District issued \$60,000 in statewide sales, services and use tax revenue bonds to purchase a bus. In March 2010 the District issued \$60,000 in statewide sales, services and use tax revenue bonds to purchase a bus. The District has pledged future statewide sales, services and use tax revenues to repay these bond issues. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 46 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$1,405,779. The District paid the August 2007 and the March 2010 issues off during the year ended June 30, 2011. For the current year, \$268,039 of principal and interest was paid on the bonds and the statewide sales, services and use tax revenues were \$387,741.

The bond resolution does not require the establishment of any specific accounts or reserves. Details of the revenue anticipation bonded indebtedness at June 30, 2011 are as follows:

Year	Bond issue of June 1, 2007			
Ending	Interest			
<u>June 30,</u>	<u>Rates</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2012	4.050%	\$ 48,814	\$ 130,000	\$ 178,814
2013	4.100%	43,533	135,000	178,533
2014	4.100%	37,895	140,000	177,895
2015	4.150%	32,034	150,000	182,034
2016	4.200%	25,791	155,000	180,791
2017-2019	4.25-4.35%	36,712	471,000	507,712
Totals		<u>\$224,779</u>	<u>\$ 1,181,000</u>	<u>\$1,405,779</u>

General Obligation Bonds Payable

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

Year	Bond Issue of April 1, 2004			
Ending	Interest			
<u>June 30,</u>	<u>Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	3.80%	\$ 175,000	\$ 37,270	\$ 212,270
2013	3.90%	175,000	30,620	205,620
2014	4.00%	185,000	23,795	208,795
2015	4.10%	195,000	16,395	211,395
2016	4.20%	200,000	8,400	208,400
Totals		<u>\$ 930,000</u>	<u>\$116,480</u>	<u>\$1,046,480</u>

Note 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members were required to contribute 4.5%, 4.30% and 4.10 % of their annual covered salary and the District was required to contribute 6.95%, 6.65% and 6.35% of annual covered payroll for the years ended June 30, 2011, 2010 and 2009 respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$223,530, \$202,737 and \$197,127, respectively, equal to the required contributions for each year.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description – The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 68 active, and 3 retired members in the plan. Participants must be age 57 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy – The contribution requirements of the plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation – The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 8,000
Interest on net OPEB obligation	360
Adjustment to annual required contribution	<u>(273)</u>
Annual OPEB cost	8,087
Contributions made	<u>-</u>
Increase in net OPEB obligation	8,087
Net OPEB obligation beginning of year	<u>8,000</u>
Net OPEB obligation end of year	<u>\$ 16,087</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed nothing to the medical plan. Plan members eligible for benefits contributed nothing to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

<u>Year</u> <u>Ended</u> <u>June 30,</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
2010	\$ 8,000	0.0%	\$ 8,000
2011	8,087	0.0%	\$ 16,087

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$88,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$88,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3.1 million and the ratio of UAAL to covered payroll was 2.8%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2009 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced .5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP-2000 Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$192,325 adjusting entry to the cash basis financial statements.

Note 10. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2011, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any,

based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 11. Categorical Funding

The District's reserved fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

<u>Program</u>	
Gifted and Talented	\$ 67,872
Returning dropout and dropout prevention program	24,966
Four-year-old preschool state aid	52,506
Teacher salary supplement	75,385
Vocational aid	9,368
Educator quality, professional development	<u>537</u>
	<u><u>\$230,634</u></u>

Note 12. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>Capital Projects</u>	<u>Special Revenue</u>
	<u>Physical Plant and Equipment Levy</u>	<u>Physical Plant and Equipment Levy</u>
Balances June 30, 2010, as previously reported	\$ -	\$ 1,165
Change in fund type classification per implementation of GASB Statement No. 54	<u>1,165</u>	<u>(1,165)</u>
Balances July 1, 2010, as restated	<u><u>\$ 1,165</u></u>	<u><u>\$ -</u></u>

Note 13. New Governmental Accounting Standards Board (GASB) Statements

During the year ended June 30, 2011, the District implemented the following GASB statements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement improves the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance

classifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which a government is bound to observe spending constraints. The District reclassified the fund balances for all governmental funds as a result of the implementation of this Statement.

- GASB Statement No. 59, *Financial Instruments Omnibus*. This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investments pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investments pool, addressing the applicability of GASB 53, *Accounting and Financial Reporting for Derivative Instruments*, and applying the reporting provisions for interest-earning investment contracts of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*.

As of June 30, 2011, the GASB had issued several Statements not yet implemented by the District. The Statements which might impact the District are as follows:

- GASB Statement No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, an amendment of GASB Statement No. 43 and No. 45, issued January 2010, will be effective for the District beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued November 2010, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve the financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. Specifically, this Statement improves financial reporting by establishing recognition, measurement, and disclosure requirements SCAs for both transferors and government operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. This Statement also improves the decision usefulness of financial reporting by requiring that specific relevant disclosures be made by transferors and governmental operators about SCAs.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus* an amendment of GASB Statements No. 14 and No. 34, issued November 2010, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting for a governmental financial reporting entity by improving

guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The amendments to the criteria for including component units allow users of financial statement to better assess the accountability of elected officials by ensuring that the financial reporting entity includes only organizations for which the elected officials are financially accountable or that are determined by the government to be misleading to exclude. The amendments to the criteria for blending also improve the focus of a financial reporting entity on the primary government by ensuring that the primary government includes only those component units that are so intertwined with the primary government that they are essentially the same as the primary government, and by clarifying which component units have that characteristic.

- GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, issued January 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. This Statement incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncement issued before November 30, 1989: FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports.
- GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, issued July 2011, will be effective for the District beginning with its year ending June 30, 2013. This Statement is intended to improve financial reporting by providing citizens and other users of state and local government financial reports with information about how past transactions will continue to impact a government's financial statement in the future. This Statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement also amends certain provisions of Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.
- GASB Statement No. 64, Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53), issued July 2011, will be effective for the District beginning with its year ending June 30, 2012. This

Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (a) the collectability of swap payments is considered to be probable, (b) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (c) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied.

The District's management has not yet determined the effect these Statements will have on the District's financial statements.

Note 14. Subsequent Event

In November, 2011 the District was approved to receive a \$900,000 grant from the Federal Emergency Management Agency to construct a safe room. The District will be proceeding with the construction project during the years ending June 30, 2012 and 2013. Part of the project will be funded by the District.

Required Supplementary Information

DANVILLE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
All Governmental Funds and Proprietary Funds
Required Supplementary Information
For the Year Ended June 30, 2011

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>	Budgeted Amounts <u>Original</u> <u>Final</u>	Final to Actual Variance
Revenues					
Local sources	\$ 3,598,660	\$ 239,400	\$ 3,838,060	\$ 3,838,406	\$ (346)
Intermediate sources	-	-	-	38,000	(38,000)
State sources	2,639,250	30,370	2,669,620	2,937,862	(268,242)
Federal sources	192,685	123,148	315,833	263,000	52,833
Total revenues	<u>6,430,595</u>	<u>392,918</u>	<u>6,823,513</u>	<u>7,077,268</u>	<u>(253,755)</u>
Expenditures/Expenses					
Instruction	3,792,548	20,737	3,813,285	4,050,000	236,715
Support services	1,548,317	-	1,548,317	1,602,500	104,183
Non-instructional programs	2,306	385,363	387,669	405,000	17,331
Other expenditures	851,507	-	851,507	783,221	81,714
Total expenditures/expenses	<u>6,194,678</u>	<u>406,100</u>	<u>6,600,778</u>	<u>6,840,721</u>	<u>439,943</u>
Excess (deficiency) of revenues over (under)	235,917	(13,182)	222,735	236,547	186,188
expenditures/expenses					
Net other financing sources	<u>90,162</u>	-	<u>90,162</u>	-	<u>90,162</u>
Net change in fund balance	326,079	(13,182)	312,897	36,547	276,350
Balance, beginning of year	<u>275,999</u>	<u>333,294</u>	<u>609,293</u>	<u>466,402</u>	<u>142,891</u>
Balance, end of year	<u>\$ 602,078</u>	<u>\$ 320,112</u>	<u>\$ 922,190</u>	<u>\$ 702,949</u>	<u>\$ 419,241</u>

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures or expenses known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing expenditures by \$200,000.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 88,000	\$ 88,000	\$ -	\$3,092,932	2.8%
2011	July 1, 2009	-	88,000	88,000	-	3,138,212	2.8%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

DANVILLE COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

Schedule 1

	<u>Special Revenue</u>		<u>Capital Projects</u>			
	Student	Management	Statewide	Physical	Debt	
	<u>Activity</u>	<u>Levy</u>	<u>Services</u>	<u>Equipment</u>	<u>Service</u>	<u>Total</u>
			<u>and Use Tax</u>	<u>Levy</u>		
Assets						
Cash and pooled investments	\$105,740	\$ 433	\$ 81,303	\$ 12,423	\$ 10,495	\$210,394
Receivables						
Property tax						
Delinquent	-	861	-	256	853	1,970
Succeeding year	-	130,000	-	34,381	99,586	263,967
Accounts receivable	-	157	-	-	-	157
Due from other governments	-	-	61,156	-	-	61,156
Total assets	<u>\$105,740</u>	<u>\$131,451</u>	<u>\$ 142,459</u>	<u>\$ 47,060</u>	<u>\$110,934</u>	<u>\$537,644</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 390	\$ 359	\$ 7,753	\$ -	\$ -	\$ 8,502
Deferred revenue						
Succeeding year property tax	-	130,000	-	34,381	99,586	263,967
Total liabilities	<u>390</u>	<u>130,359</u>	<u>7,753</u>	<u>34,381</u>	<u>99,586</u>	<u>272,469</u>
Fund balances						
Restricted for						
Student activities	105,350	-	-	-	-	105,350
Management levy purposes	-	1,092	-	-	-	1,092
School infrastructure	-	-	134,706	-	-	134,706
Physical plant and equipment	-	-	-	12,679	-	12,679
Debt service	-	-	-	-	11,348	11,348
Total fund balances	<u>105,350</u>	<u>1,092</u>	<u>134,706</u>	<u>12,679</u>	<u>11,348</u>	<u>265,175</u>
Total liabilities and fund balances	<u>\$105,740</u>	<u>\$131,451</u>	<u>\$ 142,459</u>	<u>\$ 47,060</u>	<u>\$110,934</u>	<u>\$537,644</u>

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

Schedule 2

	Special Revenue		Capital Projects			
	Student	Management	Statewide	Physical	Debt	
	Activity	Levy	Sales,	Plant and	Service	Total
			Services	Equipment		
			and Use Tax	Levy		
Revenues						
Local sources						
Local taxes	\$ -	\$110,013	\$ 387,741	\$ 32,763	\$ 109,029	\$ 639,546
Other	241,329	157	2,328	42	386	244,242
State sources	-	94	-	28	94	216
Total revenues	<u>241,329</u>	<u>110,264</u>	<u>390,069</u>	<u>32,833</u>	<u>109,509</u>	<u>884,004</u>
Expenditures						
Current						
Instruction						
Regular	-	43,175	-	-	-	43,175
Special	-	657	-	-	-	657
Other	217,870	987	-	-	-	218,857
Total instruction	<u>217,870</u>	<u>44,819</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>262,689</u>
Support services						
Student	-	197	-	-	-	197
Instructional staff	-	329	-	-	-	329
Administration	-	27,069	-	-	-	27,069
Operation and maintenance of plant	-	25,237	-	3,527	-	28,764
Transportation	-	13,311	66,867	3,993	-	84,171
Total support services	<u>-</u>	<u>66,143</u>	<u>66,867</u>	<u>7,520</u>	<u>-</u>	<u>140,530</u>
Non-instructional programs	<u>-</u>	<u>2,306</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,306</u>
Other expenditures						
Facilities acquisition	-	-	168,726	14,043	-	182,769
Long-term debt						
Principal	-	-	-	-	379,000	379,000
Interest and fiscal charges	-	-	-	-	97,413	97,413
Total other expenditures	<u>-</u>	<u>-</u>	<u>168,726</u>	<u>14,043</u>	<u>476,413</u>	<u>659,182</u>
Total expenditures	<u>217,870</u>	<u>113,268</u>	<u>235,593</u>	<u>21,563</u>	<u>476,413</u>	<u>1,064,707</u>
Excess (deficiency) of revenues over (under) expenditures	<u>23,459</u>	<u>(3,004)</u>	<u>154,476</u>	<u>11,270</u>	<u>(366,904)</u>	<u>(180,703)</u>
Other financing sources (uses)						
Proceeds from sale of real property	-	-	-	89,962	-	89,962
Interfund operating transfers in	-	-	-	-	367,379	367,379
Interfund operating transfers (out)	-	-	(277,661)	(89,718)	-	(367,379)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(277,661)</u>	<u>244</u>	<u>367,379</u>	<u>89,962</u>
Net change in fund balances	23,459	(3,004)	(123,185)	11,514	475	(90,741)
Fund balances, beginning of year, as restated	81,891	4,096	257,891	1,165	10,873	355,916
Fund balances, end of year	<u>\$105,350</u>	<u>\$ 1,092</u>	<u>\$ 134,706</u>	<u>\$ 12,679</u>	<u>\$ 11,348</u>	<u>\$ 265,175</u>

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Funds, Student Activity Accounts
For the Year Ended June 30, 2011

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Athletics	\$ 14,504	\$ 81,863	\$ 82,731	\$ 1,652	\$ 15,288
Class of:					
2008	18	-	18	-	-
2009	340	-	340	-	-
2010	119	-	78	-	41
2011	3,540	945	4,737	252	-
2012	216	17,419	13,291	(503)	3,841
2013	155	-	-	-	155
2014	398	-	-	-	398
2015	982	87	22	-	1,047
2016	989	87	199	-	877
2017	-	2,837	1,882	-	955
2018	-	341	-	-	341
Playground equipment fund	11,891	-	462	-	11,429
Book clubs	-	3,470	2,056	-	1,414
Book fair	227	5,645	5,659	-	213
Parent volunteers	1	-	1	-	-
Jump Rope for Heart	726	-	-	-	726
Kindergarten workshop	62	-	-	-	62
Elementary school store	599	420	811	46	254
Speech	195	208	1,056	653	-
National Honor Society	540	-	92	-	448
Drama	1,224	5,405	5,140	-	1,489
Cheerleaders	293	1,971	1,987	-	277
Volleyball camp	1,071	4,356	3,132	-	2,295
SCI program	61	-	-	-	61
S.A.D.D.	279	402	240	-	441
Math/Science	217	-	-	-	217
High school student council	457	2,172	2,263	480	846
Jr high student council	5,672	4,150	4,140	(78)	5,604
Boys basketball camp	912	22,709	12,594	(1,880)	9,147
Girls basketball camp	80	6,047	3,167	-	2,960
Football camp	1,203	9,767	8,503	-	2,467
Baseball camp	105	3,862	2,953	-	1,014

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Funds, Student Activity Accounts
For the Year Ended June 30, 2011

Schedule 3

Account	Balance, End of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	Intrafund <u>Transfers</u>	Balance, End of <u>Year</u>
Band	\$ 2,847	\$ 4,751	\$ 6,384	\$ 19	\$ 1,233
Vocal music	-	500	226	-	274
Soccer camp	318	-	-	-	318
Softball camp	161	2,060	1,105	-	1,116
Golf camp	-	765	573	329	521
Girls Track Camp	-	997	817	-	180
Cross Country Camp	-	967	964	-	3
Swing choir	5,954	17,568	15,440	-	8,082
High school pop	2,698	6,157	6,776	(252)	1,827
School store	323	77	15	-	385
Seniors, Inc.	544	-	-	-	544
Shop	299	-	-	-	299
FHA	776	230	142	-	864
Mass media	729	132	499	-	362
Yearbook	9,253	19,251	13,937	-	14,567
Student pictures	6,056	9,765	10,916	(65)	4,840
Interest	4,857	1,424	-	(653)	5,628
General	-	2,522	2,522	-	-
Totals	<u>\$ 81,891</u>	<u>\$ 241,329</u>	<u>\$ 217,870</u>	<u>\$ -</u>	<u>\$ 105,350</u>

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Eight Years

Schedule 4

	Modified Accrual Basis							
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues								
Local sources								
Local tax	\$1,659,508	\$2,249,708	\$2,233,216	\$2,024,587	\$1,953,149	\$1,832,358	\$1,780,361	\$ 1,793,022
Tuition	966,172	911,539	845,859	767,684	781,249	643,369	678,983	630,644
Other	89,192	317,562	612,614	481,091	425,441	344,940	417,235	261,089
Intermediate sources	-	-	-	-	-	-	-	14,812
State sources	2,639,034	2,284,658	2,501,373	2,315,717	2,117,637	1,961,839	1,916,794	1,737,471
Federal sources	192,685	332,164	200,385	96,700	132,810	106,887	124,608	107,508
Total revenues	<u>\$5,546,591</u>	<u>\$6,095,631</u>	<u>\$6,393,447</u>	<u>\$5,685,779</u>	<u>\$5,410,286</u>	<u>\$4,889,393</u>	<u>\$4,917,981</u>	<u>\$ 4,544,546</u>
Expenditures								
Current								
Instruction								
Regular	\$2,397,556	\$2,214,875	\$2,235,011	\$2,036,743	\$2,086,631	\$1,865,099	\$1,889,528	\$ 1,887,401
Special	482,505	508,345	605,173	517,915	448,713	420,957	363,474	434,193
Other	649,798	860,385	868,077	813,557	659,862	685,825	731,195	474,810
Support services								
Student	75,391	95,210	100,793	47,818	48,862	52,108	76,134	60,415
Instructional staff	143,759	149,623	136,390	94,265	91,944	84,790	106,076	67,008
Administration	573,839	651,705	720,378	745,808	757,273	658,129	534,728	464,840
Operation and maintenance of plant	368,331	377,049	446,315	409,666	411,073	402,703	382,867	359,174
Transportation	246,467	310,966	233,533	237,115	255,363	245,424	226,894	201,758
Central support services								479
Non-instructional programs	-	2,769	-	6,000	2,428	2,417	104,342	4,968
Other expenditures								
Facilities acquisition	-	114,056	135,013	1,263,233	264,709	99,475	361,119	152,193
Long-term debt								
Principal	-	290,000	350,000	340,000	390,000	370,000	315,000	332,512
Interest and other charges	-	108,658	121,204	133,813	151,306	150,857	121,852	137,185
AEA flowthrough	192,325	187,870	166,971	148,917	143,392	129,431	126,367	126,589
Total expenditures	<u>\$5,129,971</u>	<u>\$5,871,511</u>	<u>\$6,118,858</u>	<u>\$6,794,850</u>	<u>\$5,711,556</u>	<u>\$5,167,215</u>	<u>\$5,339,576</u>	<u>\$ 4,703,525</u>

KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive, Suite 3
Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Board of Education
Danville Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Danville Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated February 28, 2012. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Danville Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Danville Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Danville Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be

prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items A, B and C to be material weaknesses.

Compliance and Other Matters

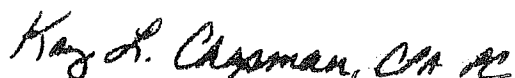
As part of obtaining reasonable assurance about whether Danville Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Danville Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the District's responses, I did not audit Danville Community School District's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Danville Community School District and other parties to whom Danville Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Danville Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Kay L. Chapman, CPA PC
February 28, 2012

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2011

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES

- A. Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although I noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We have developed an action plan to improve internal controls and the segregation of duties beginning in the fiscal year ending June 30, 2011.

Conclusion - Response accepted.

- B. Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2011

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

- C. Material Misstatement not Detected - During the course of my audit, I discovered material misstatements on the District's Certified Annual Report (CAR) that were not detected by the District's internal controls. The District did not accrue the receivable and revenue for the statewide sales, services and use tax received in August for June, 2011 on its CAR filed with the Iowa Department of Education. These misstatements will result in a correction to the beginning balance of the Statewide Sales, Services and Use Tax Fund on next year's CAR.

Recommendation - An effective system of internal control should detect material misstatements in the District's financial records and financial reporting. The District should review their control procedures and make appropriate changes to improve their internal controls to help eliminate this deficiency.

Response - We feel that our business manager has the knowledge needed to adequately perform her duties. The superintendent reviews some, but not all of the work performed and reports prepared by the business manager. We would like to hire additional office personnel to help with the business manager's workload and to provide more oversight and cross-checking of her work. However, with a limited budget, it is difficult to hire enough adequately-trained office personnel to review each other's work. We will review our procedures and consider making changes we deem necessary.

Conclusion - Response accepted.

Part II. Other Findings Related to Required Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2011 did not exceed the amounts budgeted.
2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

DANVILLE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

For the Year Ended June 30, 2011

3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - No business transactions between the District and District officials or employees were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely.
11. Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2011

Beginning balance		\$ 257,891
Revenues		
Statewide sales and services tax revenue	\$ 387,741	
Other local revenues	<u>2,328</u>	390,069
Expenditures/transfers out		
School infrastructure		
School infrastructure construction	\$ 168,726	
Equipment	66,867	
Debt service for school infrastructure		
Revenue debt	<u>277,661</u>	<u>513,254</u>
Ending balance		<u>\$ 134,706</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

DANVILLE COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2011

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant